Registries for international transfers under Article 6.2

ERCST Workshop

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NATIONAL CLIMATE CHANGE SECRETARIAT
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Given the decentralised nature of Article 6.2, registries used for Article 6.2 should facilitate market participation and support environmental integrity

- Article 6.2 provides a <u>decentralised framework</u> for bilateral or plurilateral cooperation and Internationally Transferred Mitigation Outcomes (ITMOs).

- Paragraph 29 of Decision 2/CMA 3 states that "each participating Party shall have, or have access to, a registry for the purpose of tracking". **Registries are a key enabler for market participation**.

- Given the integral role of registries in tracking the flow of ITMOs, **transparency of registries is key to ensure the environmental integrity**

There are currently two main options for registry arrangements

These archetypes assume that participating Parties want to have full control of their ITMOs, through their own national Article 6 registries or international registry

Model 1: Leverage national carbon offset programme to issue MOs
(*assuming same registry is used by the national programme and the host Party*)

    A: For use towards NDC

    B: For use towards other international purposes or other purposes
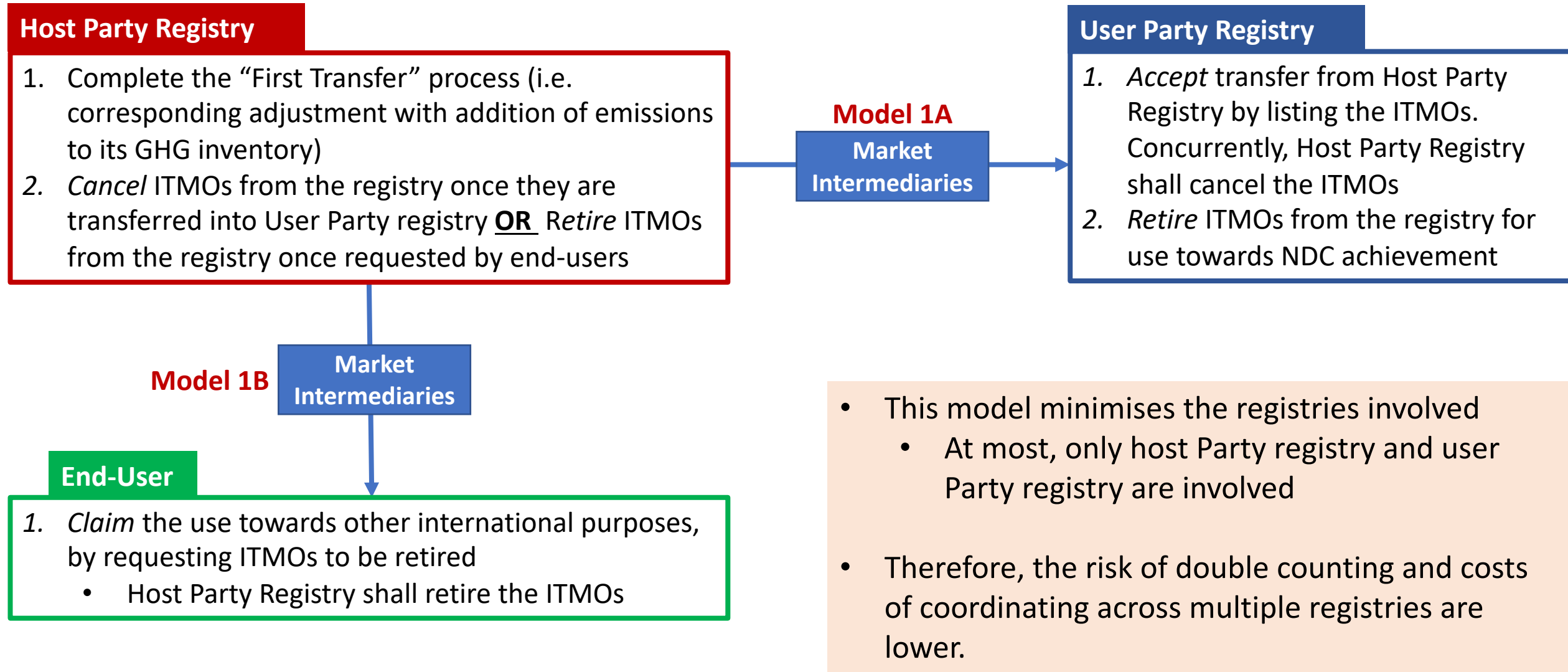
Model 2: Leverage voluntary carbon offset programmes to issue MOs
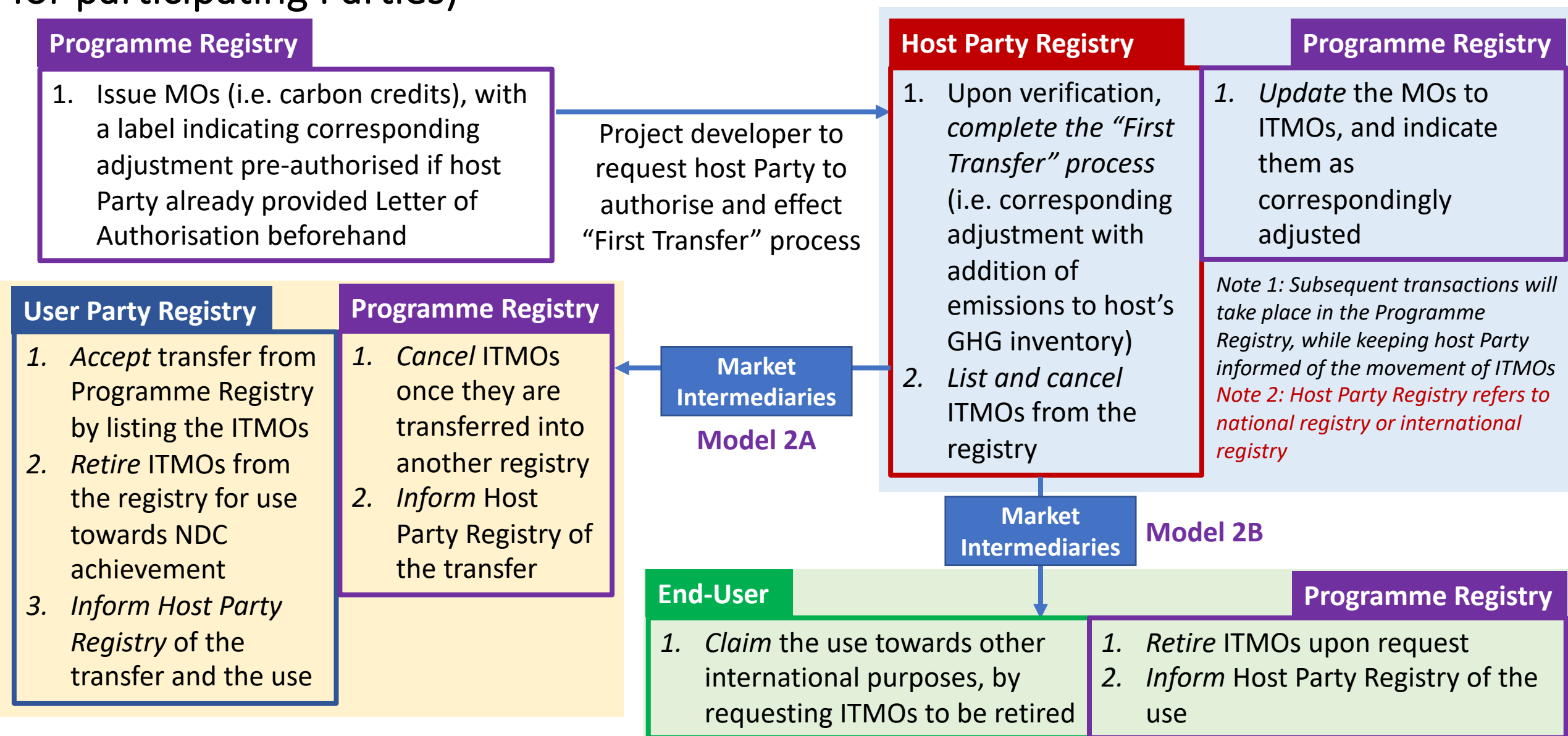
    A: For use towards NDC

    B: For use towards other international purposes or other purposes

Note: Transactions between participating Parties can happen with or without market intermediaries (e.g. brokers, marketplaces, exchanges); **No new asset classes are generated in either Models**

Model 1 is streamlined and is lower risk, but may not be applicable as most do have a national programme

Host Party Registry

1. Complete the "First Transfer" process (i.e. corresponding adjustment with addition of emissions to its GHG inventory)
2. *Cancel* ITMOs from the registry once they are transferred into User Party registry **OR** R*etire* ITMOs from the registry once requested by end-users

Model 1A

Market Intermediaries

User Party Registry

1. *Accept* transfer from Host Party Registry by listing the ITMOs. Concurrently, Host Party Registry shall cancel the ITMOs
2. *Retire* ITMOs from the registry for use towards NDC achievement

Model 1B

Market Intermediaries

End-User

1. *Claim* the use towards other international purposes, by requesting ITMOs to be retired
   - Host Party Registry shall retire the ITMOs

- This model minimises the registries involved
  - At most, only host Party registry and user Party registry are involved

- Therefore, the risk of double counting and costs of coordinating across multiple registries are lower.

Model 2 leverages existing mechanisms and infrastructure of voluntary programmes, which minimise costs and maximise access (e.g. by reducing barriers for participating Parties)

Programme Registry

1. Issue MOs (i.e. carbon credits), with a label indicating corresponding adjustment pre-authorised if host Party already provided Letter of Authorisation beforehand

Project developer to request host Party to authorise and effect "First Transfer" process

Host Party Registry

1. Upon verification, *complete the "First Transfer" process* (i.e. corresponding adjustment with addition of emissions to host's GHG inventory)
2. *List and cancel* ITMOs from the registry

Programme Registry

1. *Update* the MOs to ITMOs, and indicate them as correspondingly adjusted

Note 1: Subsequent transactions will take place in the Programme Registry, while keeping host Party informed of the movement of ITMOs

Note 2: Host Party Registry refers to national registry or international registry

User Party Registry

1. *Accept* transfer from Programme Registry by listing the ITMOs
2. *Retire* ITMOs from the registry for use towards NDC achievement
3. *Inform Host Party Registry* of the transfer and the use

Programme Registry

1. *Cancel* ITMOs once they are transferred into another registry
2. *Inform* Host Party Registry of the transfer

Market Intermediaries
Model 2A

Market Intermediaries
Model 2B

End-User

1. *Claim* the use towards other international purposes, by requesting ITMOs to be retired

Programme Registry

1. *Retire* ITMOs upon request
2. *Inform* Host Party Registry of the use

With the two main options for registry arrangements, some level of convergence is needed to ensure environmental integrity

- To enhance the effectiveness and integrity of the Article 6.2 framework, streamlining and convergence of registry arrangements into a few archetypes is needed to:
  - Ensure proper tracking and reporting
  - Ensure double counting is avoided (including double issuance, double claiming)
  - Minimise cost and barrier of participation, and maximise participation, to advance global climate action and ambition

- With regard to Model 2, given the numerous voluntary offset programmes with different processes and practices, Parties should converge on the optimal arrangement for the programmes. Programmes can then align their registries to this arrangement

- Convergence will also increase the likelihood that ITMO transactions are properly tracked, accounted and reported, to safeguard the integrity of the Article 6.2 framework

Coordination may not be sufficient to avoid double counting; safeguards and further study required

- Given the number of actors involved in the lifecycle of an ITMO (especially with model 2), there are multiple points in which double counting could occur intentionally or unintentionally especially if registries, CARP and Article 6 database do not have data or visibility of all ITMO and MO transactions.

- Possible mechanisms for safeguards include:
    - Parties can put in place relevant safeguards during the review process
    - Development of a global market infrastructure that enhances transparency of the carbon markets by linking registries, without the complexities that come with developing a meta-registry (e.g. World Bank Climate Warehouse)

- Possible way ahead: Study on the 'learning from doing' thus far (i.e. different registry arrangements) with the view to recommendations for a registry arrangement between national registry, international registry and Article 6.4 registry, for ITMOs issued under Article 6.4 mechanism
    - Ideally, it should not have a very different arrangement from registry arrangement in Article 6.2 to avoid complex set up that could lead to cost increase
    - Views from observers and non-parties could also be incorporated